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ABSTRACT

"Creative business services" have grown rapidly in Great Britain and are important in terms of their impact on the economy, including their contribution to international trade. They have helped and been boosted by such business changes as privatization, spread of information technology (IT), and contracting out of services. The sectors of management consultancy, advertising, and market research are subject to considerable structural change and a blurring of boundaries between them. This generates pressure toward multi-skilling. The sectors contain major employers of highly skilled knowledge workers, and they address skills gaps by on-the-job training. Such training tends to be highly company-specific for consultancy, less so for advertising and market research. Consultancy and advertising firms attach relatively low importance to external accreditation of qualifications, but market research firms attach a higher importance. Growth in and professional take over of IT skills blurs boundaries between creative business services and IT. The Internet has a profound effect on the sectors, especially advertising. Market researchers increasingly use the Internet for fieldwork. The Internet revolution affects consultancy with an increasing market for specialist advice on how companies can use the Internet to transform their businesses. (Appendixes include lists of organizations and individuals contacted and 49 references.) (YLB)

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Skills Issues in Other Business Services - Professional Services

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Skills Task Force
Research Paper 16
Skills Issues in
Other Business Services -
Professional Services

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Skills Task Force Research Group

Foreword

The Secretary of State for Education and Employment established the Skills Task Force to assist him in developing a National Skills Agenda. The Task Force has been asked to provide advice on the nature, extent and pattern of skill needs and shortages (together with associated recruitment difficulties), how these are likely to change in the future and what can be done to ease such problems. The Task Force is due to present its final report in Spring 2000.

The Task Force has taken several initiatives to provide evidence which can inform its deliberations on these issues. This has included commissioning a substantial programme of new research, holding consultation events, inviting presentations to the Task Force and setting up an academic group comprising leading academics and researchers in the field of labour market studies. Members of this group were commissioned to produce papers which review and evaluate the existing literature in a number of skills-related areas. The papers were peer-reviewed by the whole group before being considered by members of the Task Force, and others, at appropriate events.

This paper is one of the series which have been commissioned. The Task Force welcomes the paper as a useful contribution to the evidence which it has been possible to consider and is pleased to publish it as part of its overall commitment to making evidence widely available.

However, it should be noted that the views expressed and any recommendations made within the paper are those of the individual authors only. Publication does not necessarily mean that either the Skills Task Force or DfEE endorse the views expressed.

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1 Overview

1.1 Business Services & the 'Knowledge Economy'

Since the publication of Bell's *The Coming of Post-Industrial Society* in 1974, it has become increasingly accepted that advanced societies are experiencing a major transition to a new, knowledge-driven economy which is qualitatively different from the classic system of industrial capitalism that characterized North America and Western Europe from the mid-nineteenth to the mid-twentieth centuries.

This notion of the centrality of knowledge-based industries has moved beyond the academic sphere (see Penn, 1983) and into the policy-making sphere. The UK government's 1998 Competitiveness White Paper, *Our Competitive Future*, was subtitled *Building the Knowledge Driven Economy*, and the DTI's analytical paper published in support of the White Paper cited World Bank and OECD reports that signalled '...the increasing importance of the knowledge driven economy...' and that argued that 'the emergence of knowledge based economies...has profound implications for the determinants of growth, the organization of production and its effect on employment *and skill requirements*...' (DTI: 1998).

Inevitably and properly, the notion of a 'knowledge economy' has provoked considerable debate amongst researchers. Some argue that the shift has already taken place, and claim to be able to identify the emergence of a new 'knowledge class' which dominates by virtue of its educational skills and credentials (see Bourdieu, 1993). Social exclusion in such a context involves a lack of access to, awareness of, or competence within, these emergent knowledge industries. Conversely, others have questioned whether the 'knowledge economy' is really as pervasive as it is claimed (see Penn, 1990 for a summary of the debates). They question whether educational skills and credentials matter as much as is claimed, given the evidence that increased levels of formal education and a greater number of years spent at school do not necessarily generate a greater range of 'skills' in the recipients. They also query whether the three key sectors that have traditionally been identified as central within post-industrial theory (education, health and welfare), are actually associated with particularly high levels of knowledge or expertise. For every doctor, there are three cleaners, porters and catering staff; for every teacher, there are five dinner ladies, class room assistants, caretakers, cleaners and ground staff; and for every social worker there are many more care assistants and home helps (see Penn, 1983).

There has recently been a shift of attention by advocates of the knowledge economy away from such traditional sectors as health, education and welfare towards an emphasis on the importance of specialist expertise within other sectors of advanced societies. In particular, a range of authors (see Castells,

1996 & 1998) have drawn attention to the rapid rise of 'professional services' within modern economies. These are seen as the quintessential embodiment of the new form of post-industrial, knowledge-based society. Similarly, *Our Competitive Future* cites 'business services' as one of the key sectors at the forefront of the contemporary knowledge economy, and one which is growing rapidly in numbers. Yet remarkably little academic research has been published on these sectors, and there is an especially meagre understanding of their skills development processes. A major aim of this report is the provision of such an understanding.

1.2 Definition and Importance of 'Business Services'

There are no agreed definitions of what is meant by either 'other business services' or 'professional services'. In this paper we confine our attention to management consultancy, advertising and market research (the relevant SIC codes are 74.14, 74.4 and 74.13 respectively). Throughout the report we refer to this group of industries as ***creative business services***.

Of the three sectors that we have labelled as creative business services, management consultancy is by far and away the largest. This is partly a function of the wide heterogeneity of activities and organizations within this sector. As Sauvant (1993) put it:

> 'its practitioners are large transnational and independent firms, but also certified public accountants, thousands of freelance practitioners, business school professors, in-house consultants, as well as software firms and computer manufacturers,' (p2).

Indeed, there is a major debate within the industry itself about whether IT consultants should be classified as management consultants. The *Financial Times* reported in 1992 that *IBM* and *DEC* were members of the twenty largest firms providing management consultancy. *Consultants News*, however, do not include computer manufacturing firms as consultants, even when they have large consultancy businesses.

Similarly, there is a substantial overlap between accountancy and consultancy. Auditors to the FTSE 100 companies now earn twice as much in fees from non-audit work as they do from their role as auditors. Much of the non-audit work can be classified as financial consultancy. In 1996 non-audit income amongst such firms rose by thirty-nine per cent compared with a mere one per cent rise in audit-based incomes, (*Accountancy*, September 1999).

As far as official data are concerned (see Table 1) management consultancy has now eclipsed accountancy in terms of the total number of employees. In recent years it has been experiencing particularly strong employment growth.[1] (There is no reliable up to date information about respective self-employment levels for management consultants versus accountants.)

Table 1
Employees in Creative Business Services, Legal Services and Accounting

	1995	1996	1997
Management consultancy	149,820	145,380	153,090
Advertising	72,790	81,880	83,790
Market research	37,520	30,800	36,270
Legal services	213,150	193,130	206,020
Accounting	151,710	162,360	145,450
Source: Annual Employment Surveys, 1995-97 (Business Strategies Limited)			

In contrast, advertising and especially market research are much smaller. Nevertheless, as well as being highly cyclical sectors that have been doing well in the current upswing, these are all sectors that have experienced long term secular growth in output and demand, which has been reflected in strong employment growth rates during the 1990s. This is quite distinct from patterns in legal services and accountancy, which despite their size have witnessed little employment growth in recent years. The significance of business services can also be seen in its contribution to overseas trade. Statistics relating to creative business services alone are not readily available, but they account for a significant part of the broader definition of 'Business Services' used by the *ONS* in measuring invisible earnings (see Table 2).

Table 2: Value of trade in Business Services, £ million

	1997	1998	1999
Exports	14,300	15,670	17,010
Imports	5,550	5,650	5,290
Balance	8,760	10,020	11,710
Source: ONS. 1999 data are first half annualised.			

As can be seen, exports of business services are currently running at about £17 billion a year, while imports are about £5 billion - a huge surplus of over £11 billion. By comparison, exports of North Sea oil in 1998 were only just

[1] The data are from the Annual Employment Survey and comparisons between the years cannot always be relied upon precisely. Nevertheless, the data in the table is broadly consistent with information supplied by the sectors themselves.

over £7 billion with imports around £3 billion, while exports of banking and related services were under £6½ billion (with very modest imports). Thus in trade terms business services can be seen overall as a hugely successful sector, whose importance dwarfs other much more widely commended sectors.

2 Management consultancy

2.1 Business Trends

Although the three parts of creative business services are becoming increasingly blurred, their histories are very different. Modern management consulting has its origins in the emergence of 'scientific management' towards the end of the nineteenth century (see Chandler, 1985). Researchers such as Taylor, Follet and the Gilbreths in the USA, Fayol in France and Urwick in Britain, developed a series of new theories about human motivation and effort. They and others applied these theories to contemporary (mainly manufacturing) industry. The theories in turn formed the subject matter for business school courses, and the management consulting industry grew in a symbiotic relationship to the development of business schools, initially in the United States and subsequently in Europe. Thus many of the ideas used by management consulting firms have emerged from these business schools - and to a lesser extent, vice versa.

The 1960s witnessed two important developments: the entry of major accounting firms into management consulting, and the emergence of specialised strategy consulting firms such as the *Boston Consulting Group*. Fierce competition in the fields of tax advice and auditing led many accountancy firms into management consultancy. This drive was assisted by existing links and networks between the accountancy firms and their clients.

In the 1980s and 1990s the spread of computerization generated a massive new market for management consultants, who became closely involved in the selection and installation of computer systems. These projects encompassed both private sector companies and government agencies and departments, and IT consultancy now represents about a quarter of management consultancy fee income.

The scale of consultancy business has also been swollen in the past couple of decades by the privatization of many public services and, within the private sector, by mergers and acquisitions on the one hand and by corporate downsizing on the other. Downsizing, in particular, has increased demand for consultancy firms to carry out activities that companies no longer have the in-house staff to perform. Outsourcing of information systems, market research, human resource planning, sales forces and even of strategic planning have been a boon for consultants. At the same time, downsizing has dramatically

increased the supply of consultants, as unemployed executives have also become consultants.

In some cases, particularly within the financial services sector, commercial firms have created in-house consultancy services that also sell their services outside the parent group. *Royal Bank of Scotland* set up *Business Consultancy Services* and this is now the largest management consultancy firm based in Scotland. *Diversey Lever*, a cleaning and hygiene subsidiary of *Unilever*, has also developed a powerful, internal consultancy practice. *Leyland Trucks* created *Optima* which passes on lessons it has learned in change management to smaller companies in the north west region of England.

The increasing trend throughout the 1980s and 1990s towards globalization within manufacturing industry and other sectors such as transport has also led many management consultants to follow suit. This has resulted in widespread cross-border acquisitions, and an isomorphic internationalization of the largest consulting firms. As a result, some of these firms are now extremely large (see Table 3).

Table 3
Selected major management consultancy firms, 1998

	Revenues	Number of Consultants
Anderson Consulting	$7 billion	53,400
PwC	$6 billion	40,800
Ernst & Young	$4 billion	16,500

Source: Consultants News, 1999

The structure of the industry is diverse. A few management-consulting firms have become enormous international companies, employing thousands of professional consultants. To take just one example, *PriceWaterhouseCoopers* (*PwC*) employs 125,000 people globally, a third of them as consultants. Although this does include many IT and financial consultants, it nevertheless remains the case that these are large organizations by almost any standard. They also display much faster growth than most large companies - with an estimated global rise in revenues in 1998 of sixteen per cent, and predicted faster growth in 1999 (Kennedy Information Research Group, 1999a & 1999b). However, around half of American management-consulting firms employ less than four people.

There is no very clear sense in which these firms can be said to retain specific national identities, since their managements tend to be decentralized and their ownership rests with their various partners internationally. Inevitably, however, the management consultancy sector itself is concentrated in the

USA and there are few British-based firms among the major players. In 1991 the United Nations reported that thirty-four of the largest forty management consulting firms were based in the USA and four of the remainder were British-based: *PA Consulting*, *Noble Lowndes*, *P-E International* and *Miller, Mason and Dickenson* (see Sauvant, 1993).

Since that time there has been a further consolidation of management consultancy firms (some of it linked to a parallel consolidation amongst accountancy firms). Nevertheless, an accelerating and significant proportion of European consultancy is sourced from the UK, contributing to the export figures mentioned above. Indeed an increasing proportion of British management consultancy business is transacted overseas. This is illustrated by the export sales of *Management Consultancy Association* (*MCA*) members in Britain which rose from a little over 13 per cent in 1990 to almost 18 per cent in 1997 (*MCA*, 1998).

European consultancy itself has grown by ten per cent a year during the 1990s (*Federation of European Management Consulting Organizations*, 1996), whereas UK consultancy has grown at almost twice this rate (nineteen per cent: *op cit.*), reflecting both rising domestic and export business. Revenues amongst *MCA* members almost doubled between 1990 and 1997. The larger firms have tended to do especially well: the fifty largest management consultancy firms in Britain achieved growth of about twenty-seven per cent in 1998. Nonetheless, the industry retains a dual structure. Most management-consulting firms in Britain (as is the case elsewhere) are small and conduct the majority of their business within the UK. While the large transnational firms dominate business relations with global companies, a very long 'tail' of consultants conduct business more locally. This is reflected in the rapid rise in the number of consultancy firms in Britain which rose from 3,380 in 1995 to 6,700 in 1993 and to 10,950 in 1997.

2.2 Employment & Skills

Consultancy firms have traditionally displayed a fairly clearly bifurcated, dichotomous employment structure in which consultants are sharply distinguished from clerical workers, telephonists, receptionists and other support staff. The consultants themselves are almost always graduates (the main exceptions being in small, owner-managed firms) and are recruited with pre-existing professional and/or managerial expertise. Additional skill acquisition takes place partly on the job in a manner akin to the internal career trajectories that constitute *craft* skills in industries like paper, steel and chemicals, (see Penn, 1990). In the larger firms this is continually supplemented by intensive in-house training.[2]

[2] This was confirmed by a variety of sources including S. Baker at *Collinson Grant*.

Unlike many other professions, the market for consultants is not regulated: indeed less than fifty per cent of British management consultants are members of the *Management Consultancy Association* (*MCA,* 1998). Consultants are not licensed in Britain, nor in other advanced industrial societies. Although many consultants will have a MBA, and/or an accountancy qualification, it remains the case that there are no professional qualifications in management consultancy akin to those in medicine, accountancy and the law.

Lower level non-consultant jobs generally require the same clerical and/or administrative skills and qualifications that are widely available, but often with a premium put on communications' skills. To some extent the traditional dual model has been eroded by the increasing need to recruit IT specialists, both to help run the consultancies themselves, and to act as consultants to clients. Nevertheless, interviews with consultancy firms point to a gradual tendency for these new occupations to merge or, perhaps more precisely, to be re-absorbed into the dominant consultancy role itself.[3]

Management consultants have traditionally been regarded as mere purveyors of advice - often of the 'slash and burn' variety. Indeed consultants often stand outside client organizations and offer advice on issues that perhaps should be addressed by their management clients directly. However, over the past decade many client organizations have downsized their operations, and a major consequence has been a rapid expansion in the use of consultants to provide direct services, covering matters that management no longer have either the time or the capacity to resolve. As a result, management consultants may provide a key member of staff, act as experts providing specialist skills, as well as facilitating the integration of disparate points of view and drawing conclusions based upon an analysis of information provided by managements themselves. Consultants may also train staff, propound new ideas and implement tasks.

In terms of work content, there has been a progressive shift within consultancy firms in Britain away from advice about short term cost reductions towards corporate strategy, organizational development and human resources' strategy. This has generated a need for new sets of skills in the fields of facilitation and coaching, but also increasing needs for people who can develop business strategies based upon IT and human resources' management - skills that currently are in particularly short supply.

There has also been a strong tendency for management consultants to extend their remits into the traditional preserves of advertising agencies and market research firms. Issues such as brand names provide a crossover between consultants' concerns and those of the other two sub-sectors, and it

[3] This was particularly emphasized by S. Danczuk of *Vision 21*.

is in the nature of the consulting sector that its responses have often been predatory.

Clearly these developments have generated a growing need for multi-skilling. However, we should not exaggerate the significance of this, since it has always been a feature of the consultant's work. In particular, consultants need to sell themselves **and** to run their own businesses. Indeed, Sagar (1999) emphasizes the need for entrepreneurial as well as professional skills within consulting, and the ability to **get** business as well as the ability to **do** business is a critical element in the often elaborate selection processes that consultants employ in recruiting staff.

·It is clear that the larger consultancy firms pay very high salaries. This is partly an indication of the perceived value of what they do for potential clients, and of the high work rates and loyalty that they demand of employees. It is also an indication that, despite very high levels of applications, they do not always find it easy to recruit the staff they want. Essentially this is because consultants sell an intangible service and compete very much through reputation, rather than through the observable characteristics of what they offer. This makes them highly discriminating and risk averse in their recruitment decisions which significantly narrows their choice from an employer's perspective.

The rapid salary rises that have occurred in recent years have also been in part a reflection of increasing shortages of *experienced* workers (Murphy, 1999). Partly for this reason, and partly because accusations of unfair employment practices would damage their standing in the eyes of many clients, there is currently a serious attempt on the part of many firms to broaden recruitment and improve retention rates of staff.

This is a particularly demanding issue with respect to women, partly because of the traditionalistic cultures and working practices of consultancy firms themselves. At *Anderson Consulting*, 13 per cent of consultants are women, whilst at *Ernst & Young* the figure is 15 per cent. *Ernst & Young* have recently put in place a flexible working policy that encompasses job sharing, career breaks, part-time working, reduced hours' working, family leave, paternity leave and maternity pay and leave. Similarly, *Anderson Consulting* have developed a flexible working programme which tries to find opportunities for employees to work three or four days a week. Initially set up for women returning after maternity leave, it has recently been opened up to men and women without families.

3 Advertising

3.1 Business Trends

British advertising agencies have a very strong position in global markets, both in the sense of multinational operations whose headquarters are in London, and in the sense of foreign (in practice, American) firms that service the rest of Europe from London. There has been a clear trend amongst manufacturers to adopt global, or at least pan-European brands, promoted by cross-border marketing campaigns, often using single advertising agencies. The agencies concerned tend, disproportionately, to be UK firms.

Despite its undoubted success, this is a sector that lives with a high degree of uncertainty. The business cycle in advertising follows, but is much more extreme than, the general business cycle. Corporate spending on advertising declined in real terms by about 10 per cent in 1990 and by the same amount the following year, but has now been rising by about 5 per cent a year since the mid 1990s.

More importantly, however, is the current crisis of mass market advertising, which is the result of the rise of cable, satellite and digital television, the growth of computerization and most recently the Internet (see Sabel & Piore, 1984 and Zeitlin & Sabel, 1997). Associated with this has been the rise of 'differentiated marketing'. Technology has provided people with many more options than previously and created a form of 'consumer democracy'. Everybody now has a myriad of choices for most products that they might be contemplating purchasing. Advertisers increasingly need to find ways to speak to consumers either individually or in smaller and smaller groups.

Industry experts have noted that 'mass advertising has lost its ability to move the masses' (Zyman, 1999) and that there is a generic shift from 'lean back' forms of advertising (such as passive thirty-second television advertisements) to 'lean forward' advertisements, where the consumer actively selects what he or she wants to know about a product or service prior to deciding whether to purchase it.

Two elements are particularly important. Firstly, there has been a rise in 'direct marketing', particular connected with retail loyalty schemes that provide intensive data on customers and that facilitate direct communications between producers and their customers. Secondly, the Internet is starting to become a significant advertising medium. In 1998, *WPP*'s (the world's second largest advertising group) revenues from direct marketing and the Internet overtook those from traditional forms of advertising. Significantly, *Yahoo!* increased their advertising rates by fifteen per cent in early 1999.

Partly in consequence of the pressures of an increasingly tough market environment, the past decade has seen considerable consolidation of ownership across advertising agencies. Simultaneously, however, there has also occurred a strong growth of smaller, specialist agencies, often started up by people previously in larger agencies, and reflecting allegations of sclerosis in the larger agencies. In some cases the two tendencies have been combined, with the big groups creating or taking over very small agencies and maintaining their separate independent identities within the wider corporate shell.

3.2 Employment & Skills

In advertising, as in consultancy, there has traditionally been a clear demarcation between professional and non-professional staff. In the case of advertising, however, entry into professional posts is generally at the graduate level, followed by the acquisition of professional expertise through a period of indenture within the firm. This often entails close monitoring of junior professionals by more experienced staff. In addition, mid-career transfers from one advertising firm to another are common, although on the basis of fee-earning power rather than demonstrable skills - there are no obviously codified transferable skills that an individual can market in advertising.

As with consultancy there is strong evidence that new 'intermediate' skills, particularly associated with software production, database manipulation and the Internet are of increasing importance, and may be imposing more flexibility in recruitment than in the past. Professional staff themselves come from a wide diversity of disciplinary backgrounds - few universities provide degrees in advertising, and those degrees that are provided are generally regarded as 'far too academic' and not especially relevant to the ongoing skill needs of the sector. There has traditionally been a bias towards arts and language degrees, but there is an increasing interest in those with a more scientific and mathematical background, because of the increasing use of statistical methods in advertising.

Advertising remains a highly competitive industry - agencies must invest in their own staff, indeed as one interviewee said, "the quality of the staff is what gives an agency its edge". As a result, agencies face a huge array of training needs, and although there are industry-wide schemes and courses provided by media bodies (for example the *Radio Advertising Bureau*, which provides courses on how to create decent radio advertisements) firms undertake most of their training themselves.

Even so, increasing concern is being expressed within the industry about current levels of training in advertising (*Marketing*, 1999), particularly at the management level (*Campaign*, 1999a & 1999b). Pressure of time, and rapid rates of corporate expansion are generally seen as the main problems. Skills'

development is also increasingly seen as a useful way to retain staff. 'Employees are beginning to view training and development as an integral part of their employment package - much like paid leave and a car. Agencies better have a training program, otherwise they will not keep their staff' (Fleck, 1999).[4] Like the consultancy sector, the advertising sector is also being forced to offer some degree of flexible working to retain staff particularly women with young children. In May 1999 *Campaign* reported that *J. Walter Thompson* (part of *WPP*) were allowing maximum flexibility in terms of hours of work, teleworking and other working arrangements, in order to retain their professional specialists.

Advertising is another high paying sector, but since the quality of work is more directly measurable than in consultancy, and since novelty is of the essence within the sector, agencies are less constrained in their employment choices than consultancy firms, and more able to take risks where recruitment is concerned. One characteristic that they do share in common with consultancy firms is that they are making increasing use of the Internet to recruit staff (see Freeman, 1999).

4 Market Research

4.1 Business Trends

Market research in the UK is an £850 million industry in which the top five firms probably account for over half of overall turnover (57 per cent in 1997, according to *British Market Research Association*, 1999). The sector has seen a three hundred per cent growth in its revenues since 1981 (*op cit.*) and a broadening from traditional survey-based research to the analysis of the same retail loyalty card databases that the advertising sector is now focusing upon. Indeed the two sectors are becoming increasingly blurred (see Denis *et al*, 1997). Associated with this is an increasing need for statistical modelling, and for rapid software development.

4.2 Employment & Skills

The market research sector has a great deal in common with advertising, and is shifting towards a less intuitive, more disciplined approach to research. There is no general, codified professional knowledge - 'market research is more of an art than a science' - and higher level professional jobs mainly involve learning on the job.[5] There is an increasing emphasis on qualifications. Entry into executive (professional) level jobs is now clearly at the graduate level: indeed there is a growing demand for postgraduate qualifications in statistics and research, (*Market Research Society*, 1999).

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[4] A. Brown of *Upward Brown* stated that "Training is increasingly part of a long term job package".

[5] This was emphasized by D. Dawkins from *Probit Research* and S. Baker, a freelance market researcher.

Market research is also witnessing a rapid increase in training courses, (Lock, 1999) – many of them addressing the ability to communicate research results as well as to produce the results in the first place. These range from one-day training events to longer qualification programmes, including part-time MBAs. Courses cover a wide range of topics, including advertising, direct marketing, electronic commerce and business-business marketing. University courses are mainly at a part-time, postgraduate level.

Data processing has become a major skill within the sector. Traditionally it was performed by junior market research executives in the initial stages of their career, but recently there has developed an increasing need for personnel who can manipulate and merge different databases in order to extract far greater information on target groups or individuals. Associated with this is an increasing need for expertise in statistical modelling, (traditionally not strong within British market research). Underlying both trends are the new databases such as the *National Shoppers Survey* and those based upon supermarket reward cards, which contain considerable amounts of information on millions of households.

Market research firms increasingly need specialists in software development to help create and sustain their company-specific packages. The overall effects of these developments at the 'intermediate' level has been an increase in skill levels and a tendency for these occupations to converge into the higher professional level posts.

As far as more traditional professional workers in market research are concerned, new technology and the Internet are having a major effect ontheir job roles, (Cohen, 1998). There is a tremendous expansion of information for market researchers to process as a result of the development of large data bases, 'comoffices' and the Internet. Indeed, *Hiram Walker* report that market researchers require new forms of technical training at least twice a year. As in the other creative business services sectors, all of this has been associated in recent years with rapidly rising salaries as a result of pandemic skill shortages.

5 Overall Patterns and Explanations

5.1 Employment Structures and Skills' Development

Previous research has tended to frame creative business services within a 'dual model' of employment, in which firms are clearly divided between professionals on the one hand and non-professional support staff on the other (see Penn, 1990; Penn *et al*, 1995 and Penn, 1998). Entry into higher positions partly relies on the possession of high level qualifications, but

professional expertise is also acquired through a process of on-the-job learning.

This dual model is today probably too simplistic, largely because the huge increase in the importance of information technology has raised the value to firms of IT specialists who in terms of qualifications and other characteristics do not necessarily fit into the traditional mould of professional strata. However, there is considerable evidence from within each of the three sectors of creative business services examined in this report that there is a gradual tendency for such IT specialists to be re-absorbed within professional strata - partly because professional workers themselves seek to acquire the skills and other attributes of the IT specialists.

As well as similarities, there are also variations within creative business services, and between them and other business services. In management consultancy, in stark contrast to older professions such as the law and accountancy, on-the-job training for professional staff involves little external accreditation. Instead, on-the-job training by consultancy firms tends to be self-consciously company-specific, rather than more widely vocational. In advertising there is also little external accreditation, at least by the standards of accountancy or the law, but in contrast to management consultancy, on-the-job training is not dominated by company-specific elements. In market research too, on-the-job training tends to be vocational rather than company-specific, and there is a growing emphasis on external accreditation which distinguishes the sector - at least in its aspirations - from advertising and consultancy.

5.2 Recruitment, Skill Shortages and the Nature of the Sectors

For professional staff, creative business services are also high-paying sectors in which jobs are highly fought over, with the stronger, more dominant companies able to attract large numbers of applicants. Nonetheless there is powerful evidence that skill shortages are endemic in all three sectors of creative business services examined in this report. In part this reflects the current state of the economic cycle, and it has to be said that the downturns that sometimes afflict market research and advertising in particular can be very punishing.[6] However, the twin phenomena of simultaneous high wages and endemic skill shortages also seem to occur in cyclical downturns, albeit not to the same degree. The implication would seem to be that employers operate extreme forms of discrimination (not necessarily in the pejorative sense) in the labour market, thereby simultaneously raising the premium that the best candidates can command (especially in consultancy, and least so in market research), and reducing the willingness of employers to accept

[6] It is a commonplace for management consultants to say that their business is not cyclical, since in downturns they are asked to provide advice on dealing with recession. This is probably too sanguine, however, especially as far as the smaller companies are concerned.

'second-best candidates', even for a discount. So concerns over skill shortages may need to be understood within this context.

Several related characteristics may contribute to this. *Firstly*, in the product markets in which these firms operate, clients often place very large contracts and exercise considerable market power: these are 'winner takes all' markets. This feeds through in turn to the labour market within creative business services.

Secondly, and as noted above particularly so in the case of consultancy, the product is intangible and hard to value. If clients cannot easily judge the *product*, they will instead judge the supplier or the individual consultant or executive, particularly in terms of 'reputation'. Such a judgement itself is hard to make, and tends to rely heavily on the reputation of the academic establishments and previous employers which feature in an individual's curriculum vitae. This is a standard problem of asymmetrical information, and it is liable to be associated with strong discrimination amongst recruiters, intense recruitment rivalry, and large income dispersions between the top and bottom earners.

Analytically, this is not unlike an 'insider-outsider' model of the labour market. In the insider-outsider case, employers' desire not to de-motivate existing workers (insiders) deters them from recruiting low wage outsiders. In our case, employers' desire not to upset clients discourages them from recruiting either 'second-best candidates' (even though by so-doing they can reduce their wage bills markedly for only marginal losses in productivity) or candidates with low-reputational backgrounds or personal characteristics, even though there is no objective evidence that the candidates themselves are lacking requisite skills.

Thirdly, it is a feature of these sectors that they tend to be highly concentrated geographically: indeed they conform better to a 'cluster' model of business behaviour than do most of the manufacturing sectors upon which the model is normally premised (see Penn, 1992). The concentration is particularly centred on London and the south east region. In 1992, seventy per cent of market research society members were based in the south east, (Winstanley, 1993) - but with outposts in a limited number of regional centres such as Manchester, Glasgow and Edinburgh.

Most clustering models cite labour market factors as important explanatory variables that determine why firms cluster together (Marshall, 1920). Firms, it is claimed, locate near to others in the same or complementary industries because they can be reasonably confident of localized labour markets where people have relevant skills. Yet the argument can cut both ways - firms that co-locate can also be reasonably confident of direct competitors for the skills

of their own people. In general, therefore, labour market arguments do not necessarily imply clustering.

Where co-location is advantageous, the gains that accrue from at least having a chance of accessing the best workers offset the costs that are associated with having to pay those workers a premium because the local labour market is tight. Employers in these circumstances may cite 'skill shortages' as a problem, but without the presence of a geographically concentrated labour market, they might not be able to operate in the relevant market at all. Creative business services conform to such a pattern (or to a less extreme version of it), and their geographical bias towards London - and towards equivalent cities abroad such as New York (see Sassen, 1991) - is thus an important feature of how they satisfy their professional skill needs.

5.3 A High-Skills Equilibrium?

These results raise the further question of whether the creative business services sectors represent between them an example of a beast that is rarely glimpsed in Britain, a 'high skills equilibrium'; and if so, whether high skills equilibria are always quite such benign animals as is often assumed. The export successes of creative business services, and their employment growth, both imply the pursuit of *successful product strategies*, at least by a dominant minority of firms. Similarly, the high qualifications and wages of their professional employees imply *high skills strategies* on the part of such firms. Given that the products of creative business services' firms are largely intangible, low price strategies are hard to pursue. That, plus the assumed high skills and the successful product strategies, implies a *high quality strategy*. Finally, the persistence of success through a long period of time indicates high rates of return and hence something akin to a *self-reinforcing, stable, equilibrium.*

However, it is important to remember that this characterization applies only to the leading firms in the different parts of creative business services, and that the high reputations that such firms enjoy may act as powerful barriers to entry for new firms. Indeed firms that are nearly as highly regarded may find it hard to scale the barriers into the 'premier league'. By the same token, although it may be an exaggeration to refer to a new 'knowledge class' which dominates via its educational skills and credentials (see section 1.1), there is still a problem of social exclusion for those who lack access to, and competence within, these sectors and occupations. This is particularly the case for women in the present context.

The biggest challenge is whether it is really 'skills' that play the central role in the 'creative business services high skills equilibrium' scenario, or whether it is other attributes. In a manufacturing situation, a poor research chemist or

engineer will produce poor results, no matter how strong his or her reputation. In creative business services there may sometimes be nothing but reputation to judge by (although that would clearly be an extreme case).

6 Key Messages

Several messages suggest themselves as a result of our analysis:

- In terms of their contribution to the level and growth of employment, creative business services are very important to the UK economy. Current employment levels are approximately ¼ million people. All three sectors examined in this report – consultancy, market research and advertising – have grown very rapidly over the last twenty years.

- Creative business services are also important in terms of their impact on the economy more generally, including their contribution to international trade, and to the performance of many other different sectors. They have also facilitated, and been boosted by, many business changes such as privatization, the spread of IT and the contracting out of services.

- The sub-sectors themselves are subject to considerable structural change and indeed to a blurring of the boundaries between them. This generates increasing and intense pressures towards multi-skilling - although this has always been a feature of these sectors historically.

- There has also been a large growth in the need for IT associate professionals, which has tended to blur the former sharp distinction between professional and support staff. There is considerable evidence, however, that such IT specialists are being re-absorbed back into the professional category, and that professional cadres are also themselves seeking to take over IT skills. Indeed, the boundaries between creative business services and IT are nowadays increasingly blurred.

- These three sectors contain major employers of highly skilled knowledge workers, and they are generally effective at addressing any developing skills' gaps by on-the-job training. Such training tends to be highly company- specific in the case of consultancy, but less so in the case of advertising and market research. The analogue of this is the relatively low importance attached to external accreditation of qualifications by consultancy and advertising firms but a higher importance given by market research firms.

- Firms do, however, report skill shortages, despite often being able to offer high pay and having attractive images for potential recruits. This implies that the pool of people from whom these companies are willing to recruit is in practice quite small. Such a pattern may reflect product market characteristics, particularly the combination of an intangible product and a tendency for large 'winner takes all' deals. Firms also tend to be geographically concentrated, particularly in London. These

features are linked to a strong sense amongst employers that only the best staff are good enough - hence high pay for the most successful combined with persistent skill shortages.

- A combination of high skills and manifestly successful companies suggests that, at least for the better firms in these three sectors, they operate in a high skills equilibrium. However, it is not clear how easy it would be to generalize this success particularly to other sectors. It is also a pattern that raises problems with respect to social exclusion - especially if it is not pure skills endowment alone which distinguish individuals that succeed from those who do not. Leading firms have recognized this recently and have begun to develop patterns of working to accommodate the domestic constraints of their staff, particularly women with young children.

- All three areas of creative business services examined – consultancy, advertising and market research – are being affected by the Internet Revolution. The Prime Minister, Tony Blair, recently launched the Cabinet Office's review of the Internet (1999) with the desire that ' "British business has to embrace the Internet now" ' (Parker and Taylor, 1999). Indeed, the vision of a 'modern, knowledge-driven economy in the UK' is central to the Labour Government's vision of a Third Way (see Blair, 1998 and Giddens, 1998).

- There is overwhelming evidence that the Internet is having a profound effect on the three sectors under review in this report - advertising, market research and consultancy (see Edouard & White, 1998). This can be seen most clearly in the sphere of advertising. An increasing proportion of shopping, for instance, is being conducted over the Internet. In the USA, Internet shopping increased in value from $15 billion in 1998 to $36 billion in 1999. The most popular sectors for such e-sales were computing, financial services and travel, (Finch, 1999). Interestingly, only thirty-eight per cent of such sales were accounted for by Internet-only ('pure play') businesses: sixty-two per cent were accounted for by businesses with both Internet and non-Internet outlets ('multi-channel' businesses).

- The present estimate for e-commerce in the UK was around £250 million in 1999. This is predicted to expand by a factor of ten to around £2.5 billion in 2004. At present only fourteen per cent of UK adults access the Internet compared to double that proportion (twenty-seven per cent) in the USA. Nevertheless, it seems likely that there will be an accelerating proportion of users in Britain over the next five years. Estimates vary from between a third to a half. The likely rate of growth is largely a function of telephone costs: a sharp reduction in these could transform the situation dramatically. Indeed, *AOL* and *Freeserve* are currently engaged in a competitive struggle to reduce the charges

levied by the telecommunications companies for access to the Internet, (see Price, 1999).

- The advertising industry is increasingly affected by the growth of the Internet in a variety of ways Classified advertisements are highly popular on the Internet. Indeed, *Yahoo!* provides free classifieds for users and generates income by selling corporate advertising on the web site itself. The growth of Internet auctions is also affecting the advertising industry. There is increasing evidence from research findings that Internet advertising is becoming far more significant, (see Briggs, 1997 and Briggs and Stipp, 1999). The audience for such advertising is already over 55 million in the USA and almost 4 million in the United Kingdom, (Garton, 1999).

- The growth of the new medium is closely paralleled by the emergence of multi-channel digital television, (see Birt, 1999). As with the Internet, digital television is producing two contradictory yet integrated developments. On the one hand, there is a clear globalization of output dominated by a small number of predominantly US-based global communications' companies. On the other hand. there is a proliferation of differentiated, niche channels and the advertising industry has to cover both these bases.

- Market research is also being transformed by the growth of the Internet. Market researchers are increasingly making use of the Internet for fieldwork, (see Dodd, 1998). At present market researchers conduct around forty million interviews in Britain per year. Web surveys are becoming more popular with market researchers as a result of the growing reluctance of respondents to participate in CATI (Computer-Assisted Telephone Interviews) interviews. Internet surveys are far cheaper and much quicker than traditional methods of data collection. However, given the skewed nature of Internet users at present in Britain - they are far more likely to be male and from professional-managerial cadres, (see Garton, 1999). There are clearly serious problems of response and self-selection biases as well as issues of sample representativeness.

- Consultancy is also being affected by the Internet revolution. There is an increasing market for specialist advice on how companies can use the Internet to transform their businesses. For example, *Federal Express* have pioneered the use of the Internet through their encouragement for customers to check the location and delivery of their packages over the web. In recent weeks there has been a proliferation of reports that the major consulting firms are radically changing their operations to accommodate the explosion of e-commerce. At *McKinsey*, 15 per cent of their consultants are currently

engaged in e-commerce and *PwC* made 200 of its UK consultants redundant in December 1999 whilst announcing simultaneously that they planned to replace them with 'experts in e-business'. *PwC* have also formed a global alliance with *Microsoft* and *Sun Microsystems* to tackle the burgeoning e-commerce consultancy market. *KMPG* have recently formed a parallel alliance *Cisco* which has led to the emergence of six technology centres and 4000 new consultants specializing in e-commerce.

- Creative business services are archetypal knowledge industries (see Sedgley & White, 1999). They employ very high proportions of professional employees and their success is contingent upon the constant harnessing of new forms of knowledge to wider business problems. Their effects are far wider than the specific sector which contains them: their knowledge impacts upon many manufacturing and service sector organizations. They will continue to develop at a fast rate for the foreseeable future.

Appendix: Organizations and Individuals Contacted for this Report

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CSC Computer Science Corp.
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Hants GU14 7LS

Ernst & Young
Becket House
1 Lambeth Palace Road
LONDON SE1 7EU

Horwath Consulting
25 New Street Square
LONDON
EC4A 3LN

Kepner Tregoe Limited
Bentley House
13-15 Victoria Street
Windsor
Berkshire SL4 1HB

Kurt Salmon Associates
Bruce Court
25 Hale Street
Altrincham
Cheshire WA14 2 EY

MMM Consultancy Group Ltd
Edgbaston House
3 Duchess Place
Edgbaston
Birmingham B16 8NH

The Merchants Group
Southgate House
449-499 Midsummer Boulevard
Milton Keynes MK9 3BB

PA Consulting Group
123 Buckingham Palace Road
LONDON SW1W 9SR

Robson Rhodes
186 City Road
LONDON
SE1 9QL

SYBASE (UK) ltd
Sybase Court
Crown Lane
Maidenhead
Berks SL6 8QZ

Coverdale Organisation plc
Villiers House
Clarendon Avenue
Royal Leamington Spa
Warwickshire CV32 5PR

Deloitte & Touche Consulting Group
Stonecutter Court
1 Stonecutter Street
LONDON EC4A 4TR

Hay Management Consultants Ltd
52 Grosvenor Gardens
LONDON
SW1W 0AU

IBM Consulting
New Square
Bedfont Lakes
Feltham
Middlesex TW14 8HB

KPMG Management Consulting
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Egham
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17 Ulster Terrace
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Pannell Kerr Forster Associates
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SEMA Group Consulting
Regal House
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LONDON WC2E 8BT

VIA International plc
Sterling House
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Binder Hamyln Fry
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LONDON
EC4M 7BH

Collinson Grant Consultants Ltd
Colgran House
20 Worsley Road
SWINTON
Manchester M27 5WW

ER Consultants
Compass House
80 Newmarket Street
Cambridge CB5 8DZ

WS Atkins Planning &
Management Consultancies Limited
Woodcote Grove
Ashley Road
Epsom
Surrey KT18 5BW

Bourton Group Ltd
Bourton Hall
RUGBY
Warwickshire CB23 9SD

25 A

❑ Other Organizations Contacted

The Advertising Association
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15 Wilton Road
LONDON
SW1V INJ

Institute of Practitioners in Advertising
44 Belgrave Square
LONDON
SW1X 8QS

British Consultants Bureau
1 Westminster Palace Gardens
1-7 Artillery Row
LONDON
SW1P 1RJ

Market Research Society
15 North Burgh Street
LONDON
EC1V 0JR

Probit Research Consultants
16 Hillcrest Road
Newhaven
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BN9 9EE

Vision 21
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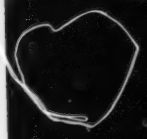

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